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No. 91-1501

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In the Supreme Court of the United States

OCTOBER TERM, 1991

POMINI FARREL S.p.A. AND POMINI, INC.,
PETITIONERS

v.

FARREL CORPORATION AND
UNITED STATES INTERNATIONAL TRADE COMMISSION

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES INTERNATIONAL TRADE COMMISSION IN OPPOSITION

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QUESTION PRESENTED

Whether the United States International Trade Commission may terminate a proceeding under 19 U.S.C. 1337 on the basis of a private arbitration agreement between the parties to the proceeding.

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OPINIONS BELOW

The opinion of the court of appeals (Pet. App. A1-A23) is reported at 949 F.2d 1147. The opinion of the United States International Trade Commission (Pet. App. A24-A60) is reported at USITC Pub. 2414.

JURISDICTION

The judgment of the court of appeals was entered on November 22, 1991. A petition for rehearing was denied on January 23, 1992. Pet. App. A105-A106. The petition for a writ of certiorari was filed on

March 16, 1992. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT

1. Respondent Farrel Corporation manufactures and distributes machinery used in mixing rubber and plastics. Petitioner Pomini S.p.A. is an Italian corporation that also sells rubber and plastics mixing machinery. Between 1957 and 1986, Farrel and Pomini entered into a series of licensing agreements that authorized Pomini to use Farrel's technology to manufacture a line of mixing machines and to sell those machines throughout the world except in the United States, the United Kingdom, and Japan. The agreements contained an arbitration clause providing that "[a]ll disputes arising in connection with the present Agreement shall be finally settled by arbitration * * * in accordance with the rules of [a]rbitration of the International Chamber of Commerce." Pet. App. A2-A3.

On January 1, 1986, Farrel exercised its right to terminate the licensing agreement with Pomini. About seven months later, Pomini announced that it would begin selling mixing devices and components in the United States through a newly-formed American marketing subsidiary, petitioner Pomini, Inc. Farrel alleges that petitioners have infringed Farrel's patents and trademarks and misappropriated its trade secrets, and that as a result Farrel has lost significant business to petitioners. Pet. App. A3-A4.

2. On June 29, 1988, Farrel filed suit in the United States District Court for the Northern District of Ohio, alleging that petitioners had committed patent and trademark violations. Farrel sought injunctive relief and treble and punitive damages. Pet. App. A4-A5. Petitioners filed a motion to stay the

action and to compel arbitration under the parties' licensing agreement. On September 10, 1990, the district court granted the motion to stay the proceedings on the basis of the arbitration provisions of the licensing agreement. Pet. App. A5, A61-A104.

Farrel also brought suit against Pomini in the Tribunal of Busto Arsizio (an Italian civil court) and in the Scottish Court of Sessions. In both actions, Farrel alleged that Pomini had misappropriated trade secrets and infringed patents and trademarks. Pomini raised the arbitration provisions of the licensing agreement as a defense in both actions. Farrel subsequently dismissed the action in Scotland. Pet. App. A4 & n.1.

3. On July 24, 1990, Farrel filed a complaint with the United States International Trade Commission (Commission) alleging that petitioners had violated Section 337 of the Tariff Act of 1930, 19 U.S.C. 1337.[1] Farrel alleged that petitioners had misappropriated trade secrets, infringed trademarks, and falsely represented the source of the equipment. Farrel sought an immediate cease-and-desist order and a limited permanent order prohibiting entry into the United States of petitioners' internal mixing devices. Pet. App. A5-A6.

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[1] Section 337 provides, in part, that it is unlawful to engage in "[u]nfair methods of competition and unfair acts in the importation of articles * * * or in the sale of such articles," where the "threat or effect" of the activity is "to destroy or substantially injure an industry in the United States; to prevent the establishment of such an industry; or to restrain or monopolize trade and commerce in the United States." 19 U.S.C. 1337(a)(1)(A). In addition, Section 337 provides that it is unlawful to import, sell for importation, or sell after importation articles that infringe a valid United States patent, copyright, or trademark. 19 U.S.C. 1337(a)(1)(B) and (C).

On August 21, 1990, the Commission instituted an investigation of Farrel's complaint. Petitioners filed a motion for summary determination contending, among other things, that the Commission should terminate its investigation on the basis of the arbitration provisions of the licensing agreement. Pet. App. A6.

On October 3, 1990, an administrative law judge issued an initial determination terminating the investigation on the basis of the arbitration agreement. On November 2, 1990, the Commission affirmed the ALJ's initial determination that the investigation should be terminated.[2] Pet. App. A24-A58. The Commission, relying on this Court's decision in *Mitsubishi Motors Corp.* v. *Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 628 (1985), and the Commission's decision in *Certain Fluidized Bed Combustion Systems*, Inv. No. 337-TA-213, USITC Pub. 1752 (Sept. 1985), concluded that "a party to an international transaction will be required to honor its agreement to arbitrate disputes involving statutory claims under U.S. law when the arbitration agreement reaches the statutory issues and when there are no legal constraints external to the agreement which foreclose arbitration of such claims." Pet. App. A32-A33. The Commission concluded that the arbitration agreement in this case should be given effect because the "claim[] of * * * misappropriation of trade secret[] * * * [is] 'inextricably connected to the license agreement' " and there are no legal constraints external to the agreement that foreclose arbitration. Pet. App.

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[2] Before the Commission, Farrel did not challenge termination of the investigation of its trademark and false representation of source claims. Thus, the Commission considered only Farrel's claim that petitioners had misappropriated trade secrets. Pet. App. A7 n.3.

A33-A34. The Commission stated that the policy considerations that caused it to decline to initiate a Section 337 proceeding in *Fluidized Beds*—"concern for international comity, respect for capacities of foreign and transnational tribunals, and sensitivity to the need of the international commercial system for * * * predictability in the resolution of disputes," Pet. App. A35—applied in this case and supported termination of the investigation.

The Commission rejected Farrel's contention that it will be unable to vindicate its rights under Section 337 in the arbitral forum. The Commission noted that, under the arbitration rules of the International Chamber of Commerce, Farrel is permitted to file a petition in federal district court seeking a preliminary order immediately halting petitioners' imports. Pet. App. A36-A37. The Commission also concluded that principles of collateral estoppel applied to the district court's decision, Pet. App. A38-A50, that Farrel did not retain an "implied right" to bring a Section 337 proceeding under the terms of the arbitration agreement, Pet. App. A50-A52, that the Commission's *Fluidized Beds* decision should not be overruled, Pet. App. A52-A53, and that the Commission should not "self-initiate" an investigation into petitioners' alleged violations, Pet. App. A53-A55.

Commissioner Rohr dissented. Pet. App. A56-A58. He noted that Section 337 provides that a violation "shall be dealt with, in addition to any other provision of law." Pet. App. A57 (quoting 19 U.S.C. 1337(a)(1)). The dissenting Commissioner observed that the Commission has conducted investigations while district court actions were pending. In his view, the decision to terminate the investigation in this case "giv[es] greater deference to an arbitral tribunal than it [does] to a U.S. District Court."

Pet. App. A57. The dissenting Commissioner also concluded that arbitration would not vindicate Farrel's rights under Section 337 because the "timing of relief to complainant through arbitration will likely only be available * * * far beyond the strictly enforced time limitations of section 337." Pet. App. A58.

4. The court of appeals reversed and remanded to the Commission. Pet. App. A1-A23. The court held that "the Commission erred by relying on the broad federal policy favoring arbitration as a ground to terminate an ongoing section 337 investigation in circumstances where the statute enumerates only two limited and specific circumstances for terminations concededly not present in this case." Pet. App. A22. The court noted that Section 337(b)(1) provides that the Commission "shall investigate any alleged violation of this section on complaint under oath or upon its initiative." In addition, Section 337(c) provides that "[t]he Commission shall determine, with respect to each investigation conducted by it under this section, whether or not there is a violation of this section, except that the Commission may, by issuing a consent order or on the basis of a settlement agreement, terminate any such investigation, in whole or in part, without making such a determination." 19 U.S.C. 1337(c). The court concluded that the mandatory language of the statute requires that, once the Commission initiates an investigation, it must determine whether there has been a violation of the statute unless there is a consent order or settlement agreement. Here, the court noted, there is no contention that the arbitration agreement can be characterized as a consent order or a settlement agreement. Pet. App. A13. Accordingly, the court held that the Commission acted contrary to law in terminating the

investigation without determining whether there was a violation of Section 337.[3] Pet. App. A14.

The court of appeals recognized (Pet. App. A14) that the statute provides that "[a]ll legal and equitable defenses may be presented in all cases," 19 U.S.C. 1337(c), and agreed with the Commission that an arbitration agreement may be considered an equitable defense in certain circumstances. But the court held that the Commission cannot rely on an arbitration agreement as a basis for making no "determination whatsoever." Pet. App. A15.

The court of appeals concluded that this Court's decision in *Mitsubishi* does not support the Commission's decision to terminate the investigation. In the court's view, *Mitsubishi* rested "in large part on the Federal Arbitration Act," 9 U.S.C. 1 *et seq.*, a statute that does not apply to the Commission. Pet. App. A18. Even if "the strong preference for enforcement of arbitration agreements" applies in this case, the court said, that preference is overcome by the mandatory language of the statute. The court noted that in *Gilmer* v. *Interstate/Johnson Lane Corp.*, 111 S. Ct. 1647 (1991), this Court recognized that an arbitration agreement does not waive the parties' right of access to an administrative, as opposed to a judi-

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[3] The court expressly declined to decide whether the Commission may terminate an investigation without determining whether the statute was violated in other circumstances, such as where the complaint is withdrawn or the issue becomes moot. Pet. App. A11-A12 n.5. The court also declined to address whether the Commission may decline to initiate an investigation on the basis of an arbitration agreement. *Id.* at A13 n.6. In addition, the court said that "it appears quite possible that, in exercising its broad discretionary powers to fashion an appropriate remedy, the Commission can consider remedies ordered by an arbitral forum." *Id.* at A16 n.8.

cial, forum where the agency has independent authority to investigate statutory violations. Pet. App. A20-A22.

On March 25, 1992, the Commission voted to reinstitute its investigation in this case.

ARGUMENT

1. Before the court of appeals, the Commission took the position that the existence of a private arbitration agreement may be asserted as an equitable defense in a proceeding under Section 337. The Commission contended that it has authority to terminate an investigation under Section 337 without determining whether the statute has been violated if it concludes that termination on the basis of a private arbitration agreement between the parties is in the public interest.

Although the court of appeals did not accept the Commission's position, the Commission believes that the petition for a writ of certiorari should be denied. Contrary to petitioners' assertion (Pet. 14), the question whether the Commission should defer to a private arbitration agreement between the parties in a proceeding brought under Section 337 is not sufficiently important to require this Court's attention at the present, interlocutory stage of this case.

First, the question has not proved to be a recurring one. It is rare for the complainant and respondent in a Section 337 proceeding to have engaged in a close business relationship involving the exchange of technology and an agreement to arbitrate all disputes. Indeed, the question presented in this case appears to have arisen only twice—in this case and in the *Fluidized Bed* case—over a period of at least six years. Thus, the court of appeals' decision is unlikely to affect a large number of cases.

Second, the court of appeals' decision rests on the precise language of Section 337. Consequently, the decision is unlikely to affect the status of international arbitration agreements under other federal statutes administered by other federal agencies.

Third, the case has been remanded to the Commission for further proceedings. Review by this Court would be premature because the court of appeals expressly declined to address several closely related questions concerning the Commission's authority to give effect to private arbitration agreements. For example, the court of appeals recognized, without elaboration, that "an arbitration agreement may be considered an equitable defense in certain circumstances." Pet. App. A14. And the court stated that "it appears quite possible that, in exercising its broad discretionary powers to fashion an appropriate remedy, the Commission can consider remedies ordered by an arbitral forum." *Id.* at A16 n.8. There is no occasion for this Court to grant review until the Commission has had an opportunity on remand to consider these unresolved issues and its further determinations have been reviewed by the court of appeals.

In addition, the court of appeals expressly declined to rule on other closely related questions. Although these questions will not be directly at issue in the proceedings on remand, they may further reduce the importance of the court of appeals' decision. For example, the court of appeals declined to decide whether the Commission may refuse to initiate an investigation on the basis of the existence of an arbitration agreement. Pet. App. A13 n.6. Moreover, the court recognized (*id.* at A11-A12 n.5) that, in addition to the circumstances specified in the statute (a settlement agreement or consent order), "[o]ther situations could arise where a section 337 investigation

may be terminated without a conclusive determination." The court declined to specify what those situations might be. These questions, which may be considered in subsequent cases, may substantially limit the practical significance of the court of appeals' decision in this case.

2. In urging this Court to grant certiorari and reinstate the Commission's determination, petitioners advance several arguments that the Commission has not accepted.

First, petitioners contend (Pet. 14-20) that the court of appeals' decision is contrary to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, June 10, 1958, 21 U.S.T. 2517, T.I.A.S. No. 6997 (*entered into force* Dec. 29, 1970) (New York Convention) and the Federal Arbitration Act (FAA), 9 U.S.C. 1 *et seq.* But the New York Convention, as implemented by Chapter 2 of the FAA, 9 U.S.C. 201, applies only to "actions" in "courts." Article II(3) of the New York Convention provides that the "court of a Contracting State" must refer "actions" to arbitration at a party's request pursuant to a valid arbitration agreement. 21 U.S.T. 2519. Because the Commission is not a "court," it has not taken the position that the New York Convention and the FAA require termination of a Section 337 proceeding on the basis of a private arbitration agreement between the parties.

Second, the Commission has not taken the position that this Court's decision in *Mitsubishi Motors Corp.* v. *Soler Chrysler Plymouth, Inc.*, 473 U.S. 614 (1985), requires the Commission to honor "the parties' choice of arbitration as the agreed-upon forum" (Pet. 18-19) in all circumstances. To be sure, *Mitsubishi Motors* recognized the strong federal policy in favor of enforcing international arbitration agree-

ments. The Commission concluded (Pet. App. A32-A38) that this policy supports termination of a Section 337 proceeding on the basis of a private arbitration agreement, but only if the Commission concludes that termination is in the public interest.

Contrary to petitioners' arguments (Pet. 15, 17), the Commission has never viewed *Mitsubishi Motors* as *requiring* termination of Section 337 proceedings in every case in which the parties have entered into an arbitration agreement. Pet. App. A38. *Mitsubishi Motors* must be considered together with the Court's more recent decision in *Gilmer* v. *Interstate/Johnson Lane Corp.*, 111 S.Ct. 1647, 1653 (1991). In *Gilmer*, the Court affirmed a decision enforcing an agreement to arbitrate any controversy arising out of the termination of employment. The Court held that the FAA precluded Gilmer from asserting claims under the Age Discrimination in Employment Act, 29 U.S.C. 621 *et seq.*, in a judicial forum. But the Court observed that Gilmer's agreement to arbitrate any controversy arising out of the termination of his employment did not preclude him from filing a charge before the Equal Employment Opportunity Commission (EEOC). 111 S.Ct. at 1653. Although the policies at issue in civil rights cases before the EEOC may be quite different from the policies at issue in international commercial cases before the Commission, both the Commission and the EEOC have independent authority to investigate possible statutory violations without a request from the parties. Indeed, petitioners concede (Pet. 19 n.8) that a private arbitration agreement would not "preclude the [Commission] from 'self-initiating' an investigation." Thus, *Gilmer* refutes any suggestion that the Commission is required to terminate pro-

ceedings under Section 337 merely because the parties have entered into a private arbitration agreement.[4]

Finally, the Commission has not accepted petitioners' contention (Pet. 15-16) that termination of the Section 337 proceeding was required by the 1951 Agreement Supplementing the Treaty of Friendship, Sept. 26, 1951, U.S.-Italy, 12 U.S.T. 131, T.I.A.S. No. 4685. That Treaty states that arbitration clauses in agreements between nationals of the United States and Italy will not be deemed unenforceable based "merely on the grounds that the place designated for the arbitration proceedings is outside such territories, or that the nationality of one or more of the arbitrators is not that of such other party." The Treaty does not control the outcome of this case for the simple reason that neither the court of appeals' decision nor the Commission's weighing of the public interest rests on the location of the arbitration or the nationality of the arbitrators. See Pet. App. A12-A14, A20-A22.

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[4] For the same reason, this Court's decision in *The Bremen* v. *Zapata Off-Shore Co.*, 407 U.S. 1 (1972), enforcing a forum-selection clause, does not support the proposition that private parties can enter into an agreement that divests the Commission of jurisdiction to investigate a violation of Section 337.

CONCLUSION

The petition for writ of certiorari should be denied.

Respectfully submitted.

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